

**Louisiana Schools Self-Insured Group  
Baton Rouge, Louisiana  
June 30, 2006**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11-15-06

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September 13, 2006

**Independent Auditor's Report**

Insurance Committee  
Louisiana Schools Self-Insured Group  
Baton Rouge, Louisiana

We have audited the balance sheet of the

**Louisiana Schools Self-Insured Group  
Baton Rouge, Louisiana**

as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Louisiana Schools Self-Insured Group. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Schools Self-Insured Group as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on page 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2006, on our consideration of the Louisiana Schools Self-Insured Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Yours truly,

*Hawthorn, Weymouth & Carroll, L.P.A.*

## **Louisiana Schools Self-Insured Group Management Discussion and Analysis**

The following is management's discussion and analysis of the financial performance of Louisiana Schools Self-Insured Group (the Group) for the fiscal years ending June 30, 2006 and 2005. It is presented as a narrative overview and analysis for the purpose of assisting the reader in interpreting the key elements of the financial statements and notes to the financial statements, and supporting schedules for the current year.

The Louisiana Schools Self-Insured Group is an association of Public Schools in the state of Louisiana who pool their funds to purchase certain types of insurance coverage. The Group was originally formed in May, 2004 providing property and casualty coverage. Each line of coverage is a separate fund within the Group and may have different membership with the Casualty Fund having the broadest membership of seven schools.

### **Financial Highlights**

	<u>Fiscal Year</u>	
	<u>2006</u>	<u>2005</u>
Premium income	\$2,303,084	\$1,892,517
Premiums ceded and insurance policies purchased	2,303,084	1,892,517
Investment income and change in unsold investment	131	768
Administrative fees	21,000	
Bank charges and other fees	3,128	955
Net operating income (loss)	18,003	(187)

The balance sheet for the Group reflects a prepaid insurance premium and unearned revenue in the amount of \$628,331 and \$71,014 as of June 30, 2006 and 2005, respectively. Because individual members within the Group have policies that expire at dates other than the fiscal year end of the fund (June 30), this amount represents premiums that were paid into the fund that had not yet been earned. Should those policies be canceled as of the fiscal year end of the fund, those unearned premiums would be returned to the members whose policies expire at a date subsequent to the funds year end.

### **Basic Financial Statements**

The basic financial statements are presented in accordance with Government Accounting Standards Board (GASB) accounting principles and include the balance sheet, statement of revenues, expenses and changes in net assets, and statement of cash flows.

The balance sheet presents the assets and liabilities of the Group. The difference between total assets and liabilities is represented as net assets and is a useful indicator of the surplus generated by the Group for all years of operation including any dividends that have been distributed to members. The change in net assets can be used as a useful measure of whether the financial position of the Group is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents the results of the Group's operations for its fiscal year. This statement shows the revenues generated along with the associated expenses. The revenues in excess of expenses are represented as net income (loss) and contribute to the change in net assets from one year to another.

The statement of cash flows presents information showing how the Group's cash has changed throughout the fiscal year as a result of its operations.

Louisiana Schools Self-Insured Group  
Balance Sheet  
June 30, 2006

<b>Assets</b>	
Cash	\$7,816
Accounts receivable	12,000
Prepaid expenses	<u>628,331</u>
<u>Total assets</u>	<u>648,147</u>
<b>Liabilities</b>	
Accounts payable	2,000
Unearned premiums	<u>628,331</u>
<u>Total liabilities</u>	<u>630,331</u>
<b>Net Assets</b>	<u>17,816</u>
<u>Total liabilities and net assets</u>	<u>648,147</u>

The accompanying notes are an integral part of these statements.

Louisiana Schools Self-Insured Group  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2006

<b>Revenues</b>		
Premiums earned		\$2,303,084
Administrative fees		21,000
Investment income		<u>131</u>
<u>Total revenues</u>		<u>2,324,215</u>
<b>Expenses</b>		
Insurance policies purchased		2,303,084
Bank service charges/other		<u>3,128</u>
<u>Total expenses</u>		<u>2,306,212</u>
<b>Net Income</b>		18,003
<b>Net Assets (Deficit)</b>		
Beginning of year		<u>(187)</u>
End of year		<u><u>17,816</u></u>

The accompanying notes are an integral part of these statements.

**Louisiana Schools Self-Insured Group**  
**Statement of Cash Flows**  
**Year Ended June 30, 2006**

**Cash Flows From Operating Activities**

Premiums received	\$2,860,401
Premiums paid	(2,860,401)
Investment activity	131
Other receipts	9,000
Payments for fees and bank charges	<u>(1,128)</u>

Net cash provided by operating activities 8,003

**Cash Flows From Financing Activities**

Managed overdraft	<u>(380)</u>
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Net cash used by financing activities (380)

**Net Increase in Cash** 7,623

**Cash, beginning of year** 193

**Cash, end of year** 7,816

**Reconciliation of Operating Income to Net Cash**

**Provided by Operating Activities**

Net income (loss)	18,003
Adjustments to reconcile net income to net cash provided by operations	
(Increase) Decrease in accounts receivable	(12,000)
(Increase) Decrease in prepaid expenses	(557,317)
Increase (Decrease) in accounts payable	2,000
Increase (Decrease) in unearned premiums	<u>557,317</u>

Net cash provided by operating activities 8,003

The accompanying notes are an integral part of these statements.



**Louisiana Schools Self-Insured Group**  
**Notes to Financial Statements**  
**June 30, 2006**

Background information on Public Entity Risk Pools

In April, 1984, the Governmental Accounting Standards Board (GASB) was established as an arm of the Financial Accounting Foundation to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local entities.

In November, 1989, the GASB issued Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" (GASB 10) to establish accounting and financial reporting standards for risk financing and insurance-related activities of state and local governmental entities, including public entity risk pools.

In February, 1996, the GASB issued Statement No. 30 "Risk Financing Omnibus, An Amendment of GASB Statement No. 10".

A "public entity risk pool" is defined in GASB Statement No. 10 as a "cooperative group of governmental entities joining together to finance an exposure, liability, or risk." There are four basic types of public entity risk pools which can serve one or several of the following functions:

Risk-sharing pool

An arrangement by which governments pool risks and funds and share in the control of losses.

Insurance-purchasing pool

An arrangement by which governments pool funds or resources to purchase commercial insurance products.

Banking pool

An arrangement by which monies are made available for pool members in the event of loss on a loan basis.

Claims-servicing or account pool

An arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid.

Participation in the Group is open to all public school boards, subject to approval by the Louisiana Schools Self-Insured Group's Board of Directors. These public schools joined together to acquire on behalf of the member schools, a program of inter-local risk management to obtain lower costs for that coverage.

In 1979, the Louisiana Legislature enacted Louisiana Revised Statutes (LRS) 33:1341 authorizing local governmental subdivisions to administer inter-local risk management agencies (IRMAs). In July 1986, the Louisiana Legislature enacted Louisiana Revised Statutes (LRS) 33:3061 specifically allowing school systems to create IRMAs for the purpose of creating and establishing group self insurance funds. Louisiana Schools Self-Insured Group is an IRMA created for Louisiana public K-12 school systems and is incorporated as a non-profit corporation under the laws of the State of Louisiana.

**Louisiana Schools Self-Insured Group**  
**Notes to Financial Statements**  
**June 30, 2006**

**Note 1-Summary of Significant Accounting Policies**

A. Basis of Accounting

The Group is considered an enterprise fund and, accordingly, uses the accrual method of accounting.

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Group considers all funds on deposit with financial institutions to be cash equivalents.

C. Premium Income

Premiums are recognized as income over the life of the policies as they are earned.

D. Income Taxes

The Group is exempt from federal income taxes under Sections 7701 and 115 (1) of the Internal Revenue Code.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management which might affect these financial statements include, but are not limited to, unpaid claims liabilities for all risk-sharing and insurance purchasing pools.

**Note 2-Cash and Cash Equivalents**

At June 30, 2006, the carrying amount of cash and cash equivalents was \$7,186, and the bank balance was \$7,816, which is collateralized by federal depository insurance.

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September 13, 2006

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Insurance Committee  
Louisiana Schools Self-Insured Group  
Baton Rouge, Louisiana

Members of the Committee:

We have audited the financial statements of the

**Louisiana Schools Self-Insured Group  
Baton Rouge, Louisiana**

as of and for the year then ended June 30, 2006, and have issued our report thereon dated September 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana Schools Self-Insured Group's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Schools Self-Insured Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the insurance committee, management, the Louisiana legislative auditor and the Louisiana insurance commissioner and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

*Hawthorn, Waymouth & Carroll, L.L.P.*

**Louisiana Schools Self-Insured Group  
Summary Schedule of Audit Findings  
June 30, 2006**

**Findings - Financial Statement Audit**

There were no current year findings.

**Louisiana Schools Self-Insured Group  
Summary Schedule of Prior Year Findings  
June 30, 2006**

**Findings - Financial Statement Audit**

*2005-1 Audit not submitted timely*

**Condition**

According to Louisiana Revised Statute 24:513, local governments should submit their audited financial statements to the Louisiana Legislative Auditor no later than six months after the close of the fiscal year. The audit was not completed and therefore not submitted by December 31, 2005.

**Auditor's Recommendation**

The annual financial report should be submitted before the deadline by starting the engagement within 90 days of year end.

**Management's Response**

Louisiana Schools Self-Insured Group will review its financial reporting to ensure its audited financial statements are submitted in the required time frame.

**Corrective Action Taken**

Proper planning and scheduling has been implemented and monitored to insure the report is timely filed.